

Lorinex
MINING CORPORATION LTD.

ANNUAL REPORT 1974



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ANNUAL REPORT 1974

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LORNEX MINING CORPORATION LTD.

| | |
|-------------------------------------|--|
| OFFICERS | Honorary Chairman - - - - - E. H. LORNTZSEN Chairman of the Board - - - - - R. W. WRIGHT, CBE President and Chief Executive Officer - - - - - R. D. ARMSTRONG Vice-President - - - - - G. R. ALBINO Vice-President, General Manager - - - - - C. W. RENO Treasurer - - - - - J. VAN NETTEN Secretary - - - - - C. W. M. BURGE |
| DIRECTORS | G. R. ALBINO, Port Credit, Ont. W. A. ARBUCKLE, Montreal R. D. ARMSTRONG, Toronto E. B. GILLANDERS, Vancouver R. HAMMOND-CHAMBERS, Edinburgh, Scotland N. B. IVORY, Montreal K. KAWAKAMI, Tokyo, Japan E. H. LORNTZSEN, Vancouver A. F. LOWELL, Toronto C. W. RENO, Logan Lake, B.C. J. A. SADLER, Toronto J. H. SMITH, Toronto R. W. WRIGHT, CBE, London, England |
| HEAD OFFICE | 580 Granville St. - - - - - Vancouver |
| MINE OFFICE | P.O. Box 1500 - - - - - Logan Lake |
| PRINCIPAL BANKERS | Canadian Imperial Bank of Commerce - - Vancouver and Toronto The Toronto-Dominion Bank - - - - - Toronto Bank of Montreal - - - - - Toronto |
| SOLICITORS | Clark, Wilson & Company - - - - - Vancouver Fasken & Calvin - - - - - Toronto |
| AUDITORS | Coopers & Lybrand - - - - - Vancouver |
| REGISTRAR AND TRANSFER AGENT | National Trust Company, Limited - - - - - Vancouver |
| SHARES LISTED | Vancouver Stock Exchange |
| THE ANNUAL GENERAL MEETING | 11:00 a.m., Tuesday, April 22, 1975 Bayshore Inn, Vancouver, British Columbia. |

DIRECTORS' REPORT TO THE SHAREHOLDERS

Net earnings for 1974 were \$22,681,000 or \$2.76 per share compared to \$31,898,000 or \$3.89 per share for the year 1973. In both cases earnings per share are stated on the basis of the weighted average number of shares outstanding during the year.

Earnings before taxes and government royalty were \$39,191,000 compared to \$37,090,000 in 1973. Charges against income for taxes and government royalty increased to \$16,510,000 in 1974 from \$5,192,000 in 1973; the increase reflects primarily the expiry on December 31, 1973 of the tax exempt period to which the Company was entitled under Canadian income tax legislation and the introduction of the British Columbia government royalty effective January 1, 1974.

A small loss was incurred in the fourth quarter of 1974 due to depressed copper prices and increased provisions for taxes.

The sections of this report that follow comprise a comprehensive report on the 1974 operations and other matters that affect the Company.

Financial:

Revenue from mine production, comprising copper, molybdenum and minor values of precious metals totalled \$100,218,000 as compared to \$96,016,000 for 1973. This increase was attributable to an increase in production of copper and to a lesser extent to increased production of copper and to a lesser extent to increased production of molybdenum. The gross revenue price for copper produced by the Company in 1974 averaged 72 cents per payable pound; the comparable average for 1973 was 88 cents per payable pound. The 1974 price, however, reached its peak in the months of April and May and declined steadily and sharply

thereafter. For the last quarter of 1974 this price averaged 58 cents per payable pound compared to an average of \$1.00 per payable pound for the last quarter of 1973 and had declined to 52 cents per payable pound produced for the month of December. The method employed by the Company in determining its revenue from mine production is described in the Accounting Policies section of this report.

Investment and other income includes an amount of \$2.6 million representing recovery under an insurance claim for loss of earnings during the month of January 1974, by reason of an electrical failure in one of the two autogenous mills.

The Company's bank loans which originally totalled \$60,000,000 and which had been reduced to \$33,595,000 at the end of 1973, were repaid in full during 1974. In addition, the 8 $\frac{3}{4}$ % Notes which originally totalled \$26,836,000 and which had been reduced to \$26,583,000 at the end of 1973 were repaid to the extent of \$3,884,000 during 1974. The principal repayments on long-term debt during the year totalled \$37,479,000 and interest payments were also made in the amount of \$3,806,000. Interest not currently payable on Income Debentures was accrued and charged to 1974 earnings in the amount of \$4,945,000. The Company's total long-term debt was \$78,363,000 at December 31, 1974; in addition an amount of \$5,822,000, payable in 1975, was included in current liabilities. The composition of this debt and the changes therein in 1974 are set out in detail in Note 4 to the financial statements.

The total provision of \$16,510,000 for taxes and government royalty previously referred to comprises provincial government royalty, mining taxes and income taxes and federal government income

taxes. These imposts represent \$2.01 per share, or 42% of the Company's earnings before taxes excluding the other major direct and indirect taxes paid to various governmental authorities.

Reference was made in the Accounting Policies section of the Company's 1973 Annual Report to the possibility that a material portion of the income reported as exempt to the end of 1973 under the provisions of the Income Tax Act would be subject to tax. This matter, reported at that time as under appeal in the Supreme Court of Canada, has since been decided in favour of the taxpayer that launched the appeal and the possibility of this additional taxation is thereby removed.

Operations:

Milling, metallurgical and production data compared to 1973 is as follows:

| | 1974 | 1973 |
|---|---------|---------|
| Tons of ore milled (thousands) | 16,445 | 13,987 |
| Average tons milled per day | 45,056 | 38,320 |
| Average millhead grade | | |
| - copper | 0.457% | 0.422% |
| - molybdenum | 0.016% | 0.017% |
| Average mill recovery | | |
| - copper | 88.1% | 89.5% |
| - molybdenum | 75.8% | 71.9% |
| Pounds of payable metal in concentrate produced (thousands) | | |
| - copper | 128,064 | 102,180 |
| - molybdenum | 4,038 | 3,481 |
| Ounces of silver produced (thousands) | 464 | 431 |
| Ounces of gold produced | 592 | 763 |

Sales in 1974 totalled 104.0 million payable pounds of copper in concentrate and 3.9 million payable pounds of molybdenum in concentrate compared to 86.4 million payable pounds and 3.4 million payable pounds respectively in 1973.

Production of copper in concentrate in 1974 was, as previously indicated, substantially higher

than in the previous year. Production in excess of shipments is stockpiled in inventory. The decline in sales relative to production is directly attributable to depressed world economic conditions which had the effect of reducing the demand for copper and, as noted previously, of causing a major decline in price.

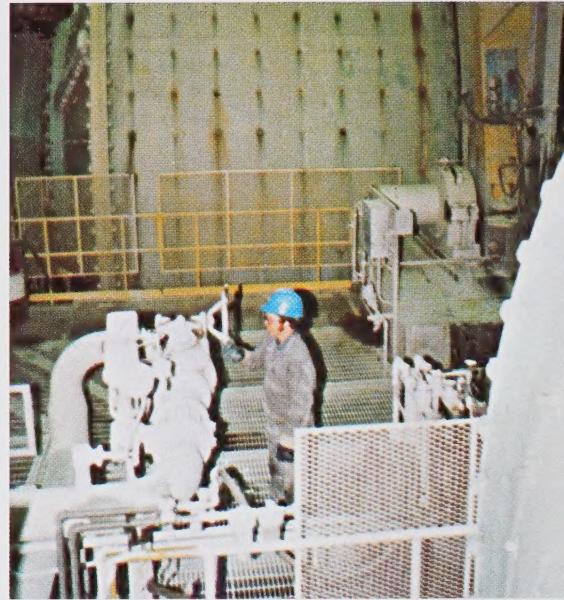
Net capital expenditures in 1974 were \$2,878,000. In addition to normal replacements, the capital program included completion of construction of the second mobile home park which had commenced in 1973, the addition of a bulldozer and a rebuilt 200 ton truck to the equipment fleet, additional pumping equipment to increase the capacity of the reclaim water system, and the construction of a 59 unit apartment building to meet housing needs.

Reference was made in the 1973 Annual Report to a comprehensive program that had been undertaken in order to delineate the total ore reserves contained in the Lornex property and to determine the optimum mining rate for extraction. The ore reserve program was completed in 1974 as planned and the optimum mining rate program is nearing completion. The ore reserve definition was carried out in conjunction with a firm of independent consulting geologists who have concurred in the conclusions reached. The result has been the delineation of 432 million tons of ore as at December 31, 1974 with an average grade of 0.411% copper and 0.014% molybdenum. This compares to the originally delineated reserves of 293 million tons which had been reduced by the ore mined from commencement of operations to 257 million tons of ore with an average grade of 0.425% copper and 0.014% molybdenum as at December 31, 1974. This does not preclude the possibility that further ore reserves may be delineated as the mine carries on exploratory work in the normal course of mine operations.





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As a result of the aforementioned increase in ore reserves, the rates for amortizing plant and equipment, mining properties and preproduction expenditures were reduced effective January 1, 1974. Under normal economic conditions and reasonable tax and regulatory conditions this major increase in the Lornex ore reserves would support an expansion of the Lornex operation without unduly shortening its life.

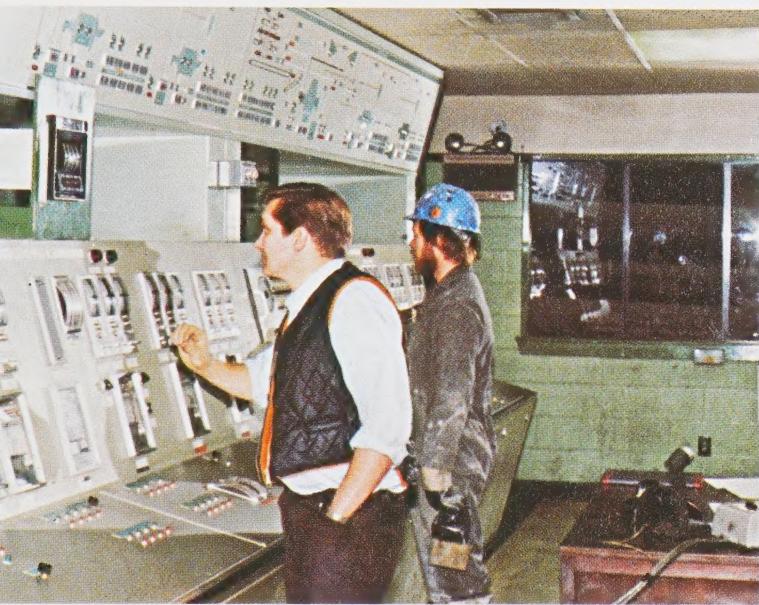
Employee Relations:

At December 31, 1974 there were 751 employees of the Company of whom 614 were engaged in production and 137 were engaged in technical, administrative or clerical functions.

A collective agreement between the Company and the United Steelworkers of America, replacing the agreement which expired on June 30, 1974, and an agreement with a newly certified office union are both in effect until June 30, 1976. Lornex considers that its employee relations continue to be good.

General Considerations:

The Company's earnings are highly sensitive to the world price of copper and as a capital intensive operation Lornex' earnings are also affected greatly by changes in the level of production. As stated earlier both the price of and demand for copper are currently seriously depressed and it does not seem reasonable at the present time to expect that there will be any significant improvements during 1975. Production of copper in concentrate exceeded sales in 1974 by a substantial margin and the Company had accumulated an inventory of 44.3 million payable pounds in concentrate at the end of 1974. Under these circumstances and having regard to the virtual certainty of a reduction in copper sales in 1975 it has become necessary to reduce production in order to avoid increasing the inventory stockpile further. This curtailment, together with the strong possibility of no significant increase in copper prices, escalating operating costs and increased tax and government royalty imposts are expected to have a major negative impact on Lornex' earnings in 1975.



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1. Giant ore-carrying trucks between Lornex open pit and primary crusher.
2. Autogenous mill dwarfs operator.
3. Lornex mill control room.
4. Copper concentrate being loaded into tanker trucks.

During 1974 the government of the Province of British Columbia enacted Bill 31, a Mineral Royalties Act, and the federal government increased taxes on earnings and disallowed for its taxation purposes the royalties imposed by the British Columbia government. The result of these taxation policies has been to impose taxes on the mining industry that are inequitable by any reasonable standards. This situation can be attributed in part to what appear to be fundamental differences between the provincial and federal governments regarding entitlement to taxation revenues from natural resource operations. It does not seem to be reasonable that the results of the failure of governments to resolve these differences should be imposed on and unfavourably affect mining companies. In conjunction with other mining companies based in British Columbia, Lornex has instituted legal action to have the British Columbia Mineral Royalties Act declared unconstitutional and to recover the monies paid thereunder.

Lornex has now become established as an efficient world scale producer. Its profitability will be

affected detrimentally in the near-term by depressed world copper market conditions as well as by the punitive tax legislation now in force. It does, however, seem reasonable to expect that in due course copper market conditions will improve and that a reasonable resolution will be reached between the taxing authorities.

Appreciation:

Your Directors wish to extend their appreciation to the Lornex management and employees whose diligent efforts have made possible the results achieved in 1974.

Vancouver, B.C.
February 25, 1975.

On behalf of the Board,
R. D. ARMSTRONG,
President and
Chief Executive Officer.

Lornex MINING CORPORATION LTD.

(Incorporated under the laws of British Columbia)

Auditors' Report

To the Shareholders of
Lornex Mining Corporation Ltd.:

We have examined the statement of financial position of Lornex Mining Corporation Ltd. as at December 31, 1974, and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
February 7, 1975

Coopers & Lybrand
Chartered Accountants

ACCOUNTING POLICIES

The principal accounting policies followed by Lornex Mining Corporation Ltd. are summarized hereunder:

REVENUE FROM MINE PRODUCTION AND VALUATION OF CONCENTRATES AWAITING SHIPMENT

A group of Japanese smelting companies has contracted to purchase the Company's entire production of copper concentrate for a period of twelve years expiring in 1984. A United States company has contracted to purchase the projected annual molybdenum concentrate production for a period of five years expiring in 1977.

Production is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price; concentrates awaiting shipment are also valued on this basis. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1974 inventories of 44,319,983 payable lbs. of copper and 850,602 payable lbs. of molybdenum contained in concentrates awaiting shipment were valued as described above; the final price had been established in respect of a shipment of approximately 11.9 million payable pounds of copper for which final weight and assay adjustments and marketing charges had not been determined.

CONVERSION OF UNITED STATES CURRENCY

The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets and long term liabilities at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

MINE SUPPLIES

Mine supplies are valued at average cost.

DEPRECIATION AND AMORTIZATION

Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

INCOME AND MINING TAXES AND GOVERNMENT ROYALTY

Under applicable Canadian income tax legislation the income of the Company was exempt until December 31, 1973. Because the Company did not claim depreciation or mine development expenses during its tax exempt period it has available sufficient of such expenses to eliminate taxable income for the year 1974. However deferred income taxes have been provided for by the Company in 1974 since the accumulated amount of depreciation and mine development expenses claimed for income tax purposes exceeded the accumulated amounts recorded in the accounts. Deferred tax accounting procedures are also being followed with respect to Provincial mining taxes.

The British Columbia Mineral Royalties Act was proclaimed effective October 1, 1974 with its provisions being retroactive to January 1, 1974. Since the Company values all production at estimated realization prices as described above the 1974 provision for government royalty includes a provision on all 1974 production.

LORNEX

Incorporated under the laws of British Columbia

Statement of Financial Position

DECEMBER 31, 1974

(\$000's omitted)

CURRENT ASSETS:

| | 1974 | 1973 |
|--|---------------|----------|
| Cash and short term deposits | \$ 6,515 | \$ 5,883 |
| Accounts and settlements receivable and prepaid expenses | 7,639 | 4,126 |
| Concentrates awaiting shipment | 21,832 | 18,773 |
| Mine supplies | 7,848 | 5,507 |
| Total | <u>43,834</u> | 34,289 |

Less:

CURRENT LIABILITIES:

| | | |
|---|---------------|--------|
| Accounts payable and accrued liabilities | 7,244 | 5,591 |
| Payable to Rio Algom Mines Limited | 2,032 | 573 |
| Provincial mining taxes and royalties payable | 2,680 | 2,477 |
| Long term debt due within one year (note 4) | 5,822 | 4,523 |
| Total | <u>17,778</u> | 13,164 |

WORKING CAPITAL

| | | |
|---|------------------|------------------|
| Plant and equipment; less depreciation (note 2) | 26,056 | 21,125 |
| Mining properties and preproduction expenditures | | |
| less amortization (note 3) | 42,829 | 44,502 |
| | | |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>131,660</u> | 135,811 |
| Deduct: | | |
| Long term debt (note 4) | 157,716 | 156,936 |
| Deferred income and mining taxes | | |
| | | |
| EXCESS OF ASSETS OVER LIABILITIES | <u>\$ 64,538</u> | <u>\$ 41,848</u> |

OWNERSHIP EVIDENCED BY:

| | | |
|--|------------------|------------------|
| Capital stock (note 5) | | |
| Authorized – | | |
| 9,500,000 common shares, par value of \$1.00 each | | |
| 4,500,000 Class A shares, par value of \$1.00 each | | |
| Issued – | | |
| 8,215,862 common shares (8,214,662 shares in 1973) | \$ 8,216 | \$ 8,215 |
| Premium less discount on shares issued for cash (includes \$8 premium | | |
| on shares issued under stock option plan in 1974 and \$94 in 1973) | 2,958 | 2,950 |
| Retained earnings | <u>53,364</u> | <u>30,683</u> |
| Total | <u>\$ 64,538</u> | <u>\$ 41,848</u> |

Approved on behalf of the Board:

NEIL B. IVORY, Director.

R. D. ARMSTRONG, Director.

Statement of Earnings

YEAR ENDED DECEMBER 31, 1974

(\$000's omitted)

REVENUE:

| | 1974 | 1973 |
|---|------------------|-----------|
| Revenue from mine production | \$100,218 | \$ 96,016 |
| Less smelting, refining and marketing charges | 14,797 | 14,187 |
| Net revenue | 85,421 | 81,829 |
| Investment and other income | 4,059 | 831 |
| | 89,480 | 82,660 |

EXPENSES:

| | | |
|--|------------------|-----------|
| Operating costs | 28,247 | 21,104 |
| Administrative and general expenses | 6,342 | 4,763 |
| Amortization and depreciation | 7,029 | 8,366 |
| | 41,618 | 34,233 |
| Operating profit | 47,862 | 48,427 |
| Interest on long term debt | 8,671 | 11,337 |
| Earnings before taxes and royalty | 39,191 | 37,090 |
| Income and mining taxes and government royalty | | |
| – Current | 4,410 | 2,477 |
| – Deferred | 12,100 | 2,715 |
| | 16,510 | 5,192 |
| NET EARNINGS FOR THE YEAR | \$ 22,681 | \$ 31,898 |
| NET EARNINGS PER SHARE | \$ 2.76 | \$ 3.89 |

Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1974

(\$000's omitted)

| | 1974 | 1973 |
|----------------------------------|------------------|------------|
| BALANCE, beginning of year | \$ 30,683 | \$ (1,215) |
| Net earnings for the year | 22,681 | 31,898 |
| BALANCE, end of year | \$ 53,364 | \$ 30,683 |

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1974

(\$000's omitted)

SOURCE OF FUNDS:

Operations

| | <u>1974</u> | <u>1973</u> |
|---|----------------------|--------------|
| Net earnings for year | \$22,681 | \$31,898 |
| Add charges against earnings not involving current outlay of funds: | | |
| Amortization and depreciation | 7,029 | 8,366 |
| Interest on Income Debentures, etc. | 4,945 | 4,573 |
| Deferred income and mining taxes | <u>12,100</u> | <u>2,715</u> |
| Total funds from operations | <u>46,755</u> | 47,552 |
| Issue of common shares under stock option plan | 9 | 109 |
| | <u>46,764</u> | 47,661 |

DISPOSITION OF FUNDS:

Reduction of long term debt:

| | | |
|---|-----------------|----------|
| Bank loans | 29,325 | 24,775 |
| 8 3/4% Notes | <u>9,453</u> | 253 |
| | <u>38,778</u> | 25,028 |
| Expenditures on plant and equipment (net) | 2,878 | 3,290 |
| Repayment of housing loans (net) | 177 | 319 |
| | <u>41,833</u> | 28,637 |
| INCREASE IN WORKING CAPITAL | 4,931 | 19,024 |
| WORKING CAPITAL, beginning of year | <u>21,125</u> | 2,101 |
| WORKING CAPITAL, end of year | <u>\$26,056</u> | \$21,125 |

Notes to the Financial Statements

Period ended December 31, 1974

E. ACCOUNTING POLICIES

The information on pages 9 and 10 presents a summary of certain accounting policies and is an integral part of these financial statements.

PLANT AND EQUIPMENT

| | 1974 | 1973 |
|-------------------------------------|----------------------|----------------------|
| Plant and equipment at cost | \$104,177,940 | \$101,648,308 |
| Less accumulated depreciation | 15,346,859 | 10,339,517 |
| | \$ 88,831,081 | \$ 91,308,791 |

MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

| | 1974 | 1973 |
|--|----------------------|----------------------|
| Mining properties, at cost | \$ 1,065,179 | \$ 1,055,009 |
| Less accumulated amortization | 102,091 | 62,622 |
| | 963,088 | 992,387 |
| Preproduction expenditures at cost | 46,297,946 | 46,266,282 |
| Less accumulated amortization | 4,432,237 | 2,756,377 |
| | 41,865,709 | 43,509,905 |
| | \$ 42,828,797 | \$ 44,502,292 |

LONG TERM DEBT

| | 1974 | 1973 |
|---|----------------------|----------------------|
| Bank loans | \$ — | \$ 33,595,000 |
| Less portion included in current liabilities | — | 4,270,000 |
| Long term portion | — | 29,325,000 |
| 8 ³ / ₄ % Notes due as stated hereunder | 22,699,346 | 26,583,233 |
| Less portion included in current liabilities | 5,822,000 | 253,173 |
| Long term portion (1974 – \$16,665,780 U.S.; 1973 – \$26,000,000 U.S.) | 16,877,346 | 26,330,060 |
| 8½% Series A Income Debentures due December 31, 1985 | 44,093,000 | 44,093,000 |
| Housing loans | 181,248 | 358,648 |
| Accrued interest on Income Debentures | 17,211,337 | 12,265,958 |
| | \$ 78,362,931 | \$112,372,666 |

Repayment of the 8 $\frac{3}{4}$ % Notes is collaterally secured under a Trust Deed by the pledge of second mortgage bonds, secured by a second fixed and specific charge and a second floating charge on the assets of the Company. During 1974 the bank loans were repaid in full and accordingly at December 31, 1974 the Company had no liability outstanding against the first mortgage bonds secured by a first fixed and specific charge and a first floating charge on the assets of the Company.

Under the terms of the Japanese Financing Agreement 90% of the Company's net operating profit as defined is to be applied to repayment of the 8 $\frac{3}{4}$ % Notes. The cumulative minimum repayments of principal required to be made are as follows:

| <u>Due In</u> | |
|---------------|-----------------|
| 1975 | \$ 750,000 U.S. |
| 1976 | 1,000,000 U.S. |
| 1977 | 1,250,000 U.S. |
| 1978 | 8,350,000 U.S. |
| 1979 | 21,650,000 U.S. |
| 1980 | 26,500,000 U.S. |

To December 31, 1974 repayments totalling \$3,954,000 U.S. have been made on the 8 $\frac{3}{4}$ % Notes, thereby reducing the cumulative minimum repayments shown above by that amount; the cumulative repayments of \$750,000 U.S. due in 1975 have thus been more than satisfied.

The principal amount of the Income Debentures is to be repaid by way of annual sinking fund payments from all of the operating profits of the Company after the 8 $\frac{3}{4}$ % Notes have been paid in full. The amounts and timing of the required sinking fund payments are defined in the Income Debenture Indenture and are dependent on the operating profits of the Company together with certain other factors. The sinking fund payments are to be used to redeem the Income Debentures at par. Of the Income Debentures of \$44,093,000 outstanding at December 31, 1974 \$36,097,000 principal amount is owned by the parent company, Rio Algom Mines Limited.

The accrued interest of \$17,211,337 on Income Debentures at December 31, 1974 may not be paid until the required interest and principal repayments have been made and certain other conditions have been met under the terms of the Japanese Financing Agreement.

5. CAPITAL STOCK

During the year 1,200 common shares were issued for \$8,748 cash under a Stock Option Plan.

At December 31, 1974, 843,460 common shares were reserved:

- (a) 760,560 common shares for issue in exchange for the 760,560 Class A shares which may be issued under the terms of the Construction and Management Agreement;
- (b) 82,900 common shares for issue under a Stock Option Plan. Options may be granted to employees of the Company and to certain employees of Rio Algoma Mines Limited. Outstanding options have been granted to purchase 62,800 common shares at prices varying from \$7.20 to \$8.65 per share; these options expire on varying dates from September 27, 1976 to April 23, 1980.

In addition 760,560 Class A shares are reserved to satisfy obligations of the Company which may arise under the provisions of the Construction and Management Agreement with Rio Algoma (note 6(a)).

The Trust Deeds and Indentures prohibit the payment of dividends until all loans and accrued interest have been paid in full.

6. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Rio Algoma Mines Limited has agreed to supervise and manage the business of the Company until December 1, 1984 and to incur and pay, on behalf of the Company, operating costs of the Company incurred prior to August 1, 1976. The Company has agreed to pay Rio Algoma a management fee of \$250,000 per annum.
If the Company is unable to reimburse Rio Algoma for any of the aforementioned costs Rio Algoma may elect to receive Units of the Company's Income Debentures and Class A shares instead of cash at a later date. The maximum number of such Units which could be issued is 9,507, comprised of \$9,507,000 principal amount of Income Debentures and 760,560 Class A shares.
- (b) The Company has a contingent liability to buy back 231 houses and 100 mobile home lots at the Logan Lake townsite for \$5,817,017 until December 31, 1982.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1974 the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was \$244,572.

Rio Algoma
—
Rio Tinto

TO THE SHAREHOLDERS:

Net earnings of Lornex Mining Corporation Ltd. for the first six months of 1974 were \$21,068,000 compared with \$12,367,000 for the same period in 1973. The comparative net earnings per share of capital stock were \$2.56 and \$1.51 respectively.

The improvement in earnings over last year was due primarily to higher copper prices and a 15% increase in copper production, resulting from an increase in tonnage milled and a slight improvement in mill head grade, the effects of which were modified materially by provisions made for British Columbia Government royalties and for income and mining taxes.

Copper prices were unusually high during the period March to May 1974. They have since dropped but are still at a level well above the average for the first half of last year.

Under applicable Canadian Income Tax legislation the income of the Company was exempt until December 31, 1973.

Although the B.C. Mineral Royalties Act has received royal assent it has not been promulgated as of this date; however, since its provisions are stated to be retroactive to January 1, 1974, provision has been made for the royalties estimated to be payable from that date.

Provisions for taxes on income have been made on the basis of the proposals contained in the Federal Budget introduced on May 6, 1974. No adjustment has been made for possible modification of its provisions. Recent statements made by the Minister of Finance indicate that the total tax impost may be modified before the Budget is enacted.

Investment and other income includes an amount of \$1.7 million representing partial recovery under an insurance claim for loss of earnings during the month of January, by reason of an electrical failure in one of the two autogenous mills.

Operations continued at a satisfactory level, with the average milling rate for the first half of the year being 43,008 tons per day.

Studies are continuing with respect to the previously announced program undertaken by the Company to further define the ore reserves contained in its property and to determine the optimum rate of extraction. The results are being analyzed in their operating and economic context; an important factor that must be considered in this connection is the amount of combined federal and provincial government taxes and royalties that may be imposed.

Bank loan repayments totalling \$22.6 million were made during the first six months of 1974. Further repayments of \$3.0 million were made on July 15, reducing the principal amount of the bank loans to \$8.0 million.

Total indebtedness outstanding as at June 30, 1974 was \$96.8 million, made up of the remaining bank loans, Japanese loans, and income debentures including accrued interest thereon.

The hourly work force and the recently certified office union have ratified new two-year contracts which terminate June 30, 1976.

R. D. ARMSTRONG,
President

July 23, 1974

LORNEX MINING CORPORATION LTD.

STATEMENT OF EARNINGS

*for the six months ended June 30, 1974
(\$000's omitted)*

| | 1974 | 1973 |
|--|-----------------|-----------------|
| Revenue from mine production | \$63,311 | \$42,385 |
| Less smelting, refining and marketing charges | 9,677 | 6,326 |
| Net revenue | 53,634 | 36,059 |
| Investment and other income | 2,290 | 146 |
| | <u>55,924</u> | <u>36,205</u> |
| Expenses: | | |
| Operating costs | 11,983 | 9,838 |
| Administrative and general expenses | 2,452 | 2,119 |
| Amortization and depreciation | 4,595 | 4,070 |
| | <u>19,030</u> | <u>16,027</u> |
| Operating profit | 36,894 | 20,178 |
| Interest on long term debt | 4,826 | 5,661 |
| Earnings before taxes and government royalty | 32,068 | 14,517 |
| Income and mining taxes and government royalty | 11,000 | 2,150 |
| Net earnings for period | <u>\$21,068</u> | <u>\$12,367</u> |
| Net earnings per share of capital stock (note) | <u>\$ 2.56</u> | <u>\$ 1.51</u> |

NOTE: Net earnings per share have been calculated on the weighted average number of total shares outstanding during the period, including both common and Class A shares.

Approved on behalf of the Board:

R. D. Armstrong, Director

G. R. Albino, Director

Subject to year end audit and adjustments.

LORNEX MINING CORPORATION LTD.

STATEMENT OF CHANGES IN
FINANCIAL POSITION

for the six months ended June 30, 1974

(\$000's omitted)

1974 1973

Source of Funds:

Operations

| | | |
|---|---------------|---------------|
| Net earnings for period | \$21,068 | \$12,367 |
| Add charges against earnings not involving current outlay of funds: | | |
| Amortization and depreciation | 4,595 | 4,070 |
| Interest on Income Debentures, etc. | 2,401 | 2,233 |
| Deferred income and mining taxes | 3,650 | 2,150 |
| Total funds from operations | 31,714 | 20,820 |
| Sale of houses | — | 970 |
| Housing loans (net) | 132 | — |
| Issue of common shares under stock option plan | 9 | 1 |
| | <u>31,855</u> | <u>21,791</u> |

Disposition of Funds

| | | |
|---|-----------------|-----------------|
| Expenditures on plant and equipment | 700 | 1,249 |
| Buyback of houses (net) | 186 | — |
| Reduction of long term debt | | |
| Bank loans (see note) | 29,325 | 6,656 |
| 8 3/4 % notes | 4,911 | — |
| Repayment of housing loans (net) | — | 120 |
| | <u>35,122</u> | <u>8,025</u> |
| Increase (Decrease) in Working Capital | (3,267) | 13,766 |
| Working Capital beginning of period | 21,125 | 2,101 |
| Working Capital end of period | <u>\$17,858</u> | <u>\$15,867</u> |

| | |
|--|-----------------|
| Note: Bank loan repayments in period | \$22,604 |
| Add increase in current portion of bank loans payable | 6,721 |
| Net reduction of bank loans as above | <u>\$29,325</u> |

Lornex

Lornex Mining Corporation Ltd.

Interim Report to the Shareholders

for the six months ended June 30, 1974